PANCREATIC CANCER ACTION NETWORK, INC.

FINANCIAL STATEMENTS
JUNE 30, 2013
WITH SUMMARY COMPARATIVE INFORMATION FOR 2012

WINDES & MCCLAUGHRY
ACCOUNTANCY CORPORATION
Certified Public Accountants & Consultants
EXCEEDING EXPECTATIONS SINCE 1926

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Pancreatic Cancer Action Network, Inc.

We have audited the accompanying financial statements of Pancreatic Cancer Action Network, Inc. (the Organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pancreatic Cancer Action Network, Inc. as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Pancreatic Cancer Action Network, Inc.'s 2012 financial statements, and our report dated September 7, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Windes & McClaughry

Long Beach, California
September 13, 2013

PANCREATIC CANCER ACTION NETWORK, INC.

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013 WITH COMPARATIVE TOTALS FOR 2012

ASSETS

	June 30, 2013	June 30, 2012
ASSETS		
Cash and cash equivalents	$ 1,662,657	$ 1,450,462
Investments	11,060,486	8,514,725
Pledges receivable, net	2,163,507	1,206,693
Sundry receivables	283,700	250,282
Inventory	40,942	68,241
Prepaid expenses	324,838	528,549
Property and equipment, net	722,370	694,539
Other assets	101,898	77,305
TOTAL ASSETS	$ 16,360,398	$ 12,790,796

LIABILITIES AND NET ASSETS

	2013	2012
LIABILITIES		
Accounts payable	$ 595,915	$ 538,758
Accrued expenses	664,143	605,862
Grant obligations, net	5,759,930	3,271,280
Deferred lease liability	620,517	617,158
Capital lease obligations	15,739	21,011
	7,656,244	5,054,069
COMMITMENTS (Note 8)		
NET ASSETS		
Unrestricted		
Undesignated operating funds	604,314	471,419
Board designated operating reserve	6,370,000	5,840,000
Equity in property and equipment	714,491	673,528
Total unrestricted	7,688,805	6,984,947
Temporarily restricted	1,015,349	751,780
	8,704,154	7,736,727
TOTAL LIABILITIES AND NET ASSETS	$ 16,360,398	$ 12,790,796

The accompanying notes are an integral part of these statements.

PANCREATIC CANCER ACTION NETWORK, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE TOTALS FOR 2012

	Unrestricted	Temporarily Restricted	June 30, 2013	June 30, 2012
REVENUE, GAINS AND OTHER SUPPORT				
Contributions	$ 5,517,337	$ 3,447,242	$ 8,964,579	$ 7,120,973
Special events (net of direct costs of $2,173,152 and $2,152,701, for 2013 and 2012, respectively)	9,798,030	907,177	10,705,207	8,771,804
Store sales, net	(12,012)		(12,012)	183,660
Other income	8,448		8,448	13,995
Investment return	222,158		222,158	373,732
Net assets released from restrictions	4,090,850	(4,090,850)		
Total Revenue, Gains and Other Support	19,624,811	263,569	19,888,380	16,464,164
EXPENSES				
Program services:				
Research	6,914,781		6,914,781	5,032,781
Advocacy	2,208,453		2,208,453	1,912,723
Patient services	2,655,869		2,655,869	2,418,367
Community outreach	4,817,307		4,817,307	3,749,048
Total Program Services	16,596,410		16,596,410	13,112,919
Supporting services:				
General and administrative	587,363		587,363	500,645
Fund-raising	1,737,180		1,737,180	1,454,887
Total Supporting Services	2,324,543		2,324,543	1,955,532
Total Expenses	18,920,953		18,920,953	15,068,451
INCREASE IN NET ASSETS	703,858	263,569	967,427	1,395,713
NET ASSETS AT BEGINNING OF YEAR	6,984,947	751,780	7,736,727	6,341,014
NET ASSETS AT END OF YEAR	$ 7,688,805	$ 1,015,349	$ 8,704,154	$ 7,736,727

The accompanying notes are an integral part of these statements.

PANCREATIC CANCER ACTION NETWORK, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013 WITH COMPARATIVE TOTALS FOR 2012

	Program Services					Supporting Services				
	Research	**Advocacy**	**Patient Services**	**Community Outreach**	**Total Program**	**General and Administrative**	**Fund-raising**	**Total Supporting**	**Total 2013**	**Total 2012**
Salaries	$ 839,657	$ 827,959	$ 1,217,377	$ 2,045,135	$ 4,930,128	$ 313,591	$ 869,411	$ 1,183,002	$ 6,113,130	$ 5,186,286
Payroll taxes and benefits	125,144	126,535	198,209	328,543	778,431	68,283	134,209	202,492	980,923	799,782
Research grants	5,371,000				5,371,000				5,371,000	3,744,245
Grantee development	101,972				101,972				101,972	97,839
Conferences	51,970	8,975	57,998	4,234	123,177	18,979	9,988	28,967	152,144	123,192
Workshops	25,681	396,831	111,127	507,748	1,041,387				1,041,387	949,290
Special events							42,662	42,662	42,662	57,764
Professional services	74,872	350,465	249,900	213,954	889,191	26,951	98,560	125,511	1,014,702	774,453
Accounting, legal and regulatory fees	5,075	5,883	8,044	13,327	32,329	1,970	5,460	7,430	39,759	46,349
Advertising	5,441	56,174	104,632	579,643	745,890	2,123	8,152	10,275	756,165	105,836
Insurance	8,326	8,410	12,479	53,763	82,978	3,206	8,545	11,751	94,729	92,485
Bank and processing fees	87,384	87,202	131,520	217,855	523,961	35,357	97,375	132,732	656,693	547,498
Occupancy	110,502	195,870	166,281	277,231	749,884	42,362	114,324	156,686	906,570	888,942
Voice and data communication	8,087	7,943	11,655	24,987	52,672	6,521	9,124	15,645	68,317	58,794
Information technology	19,036	25,043	27,776	90,977	162,832	7,299	23,444	30,743	193,575	224,905
Supplies	5,579	6,482	25,468	30,180	67,709	2,080	8,587	10,667	78,376	57,781
Printing	9,013	4,794	187,940	33,420	235,167	2,108	42,731	44,839	280,006	339,044
Postage and shipping	3,392	4,669	60,671	43,691	112,423	1,580	74,731	76,311	188,734	327,077
Travel and development	27,866	32,715	9,634	227,256	297,471	2,814	152,479	155,293	452,764	304,849
Staff support	10,568	14,013	16,126	42,396	83,103	3,823	10,857	14,680	97,783	49,238
Equipment and maintenance	2,923	3,584	4,356	22,465	33,328	1,120	2,985	4,105	37,433	29,638
Directors' meetings						27,004	139	27,143	27,143	27,019
Miscellaneous	4,185	27,559	2,185	17,058	50,987	13,910	6,134	20,044	71,031	60,998
Depreciation and amortization	17,108	17,347	52,491	43,444	130,390	6,282	17,283	23,565	153,955	175,147
2013 TOTALS	$ 6,914,781	$ 2,208,453	$ 2,655,869	$ 4,817,307	$ 16,596,410	$ 587,363	$ 1,737,180	$ 2,324,543	$ 18,920,953	
2012 TOTALS	$ 5,032,781	$ 1,912,723	$ 2,418,367	$ 3,749,048	$ 13,112,919	$ 500,645	$ 1,454,887	$ 1,955,532		$ 15,068,451
PERCENTAGE OF TOTAL EXPENSES:										
2013	37%	12%	14%	25%	88%	3%	9%	12%	100%	
2012	33%	13%	16%	25%	87%	3%	10%	13%		100%

The accompanying notes are an integral part of these statements.

PANCREATIC CANCER ACTION NETWORK, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE TOTALS FOR 2012

	For the Year Ended June 30, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$ 967,427	$ 1,395,713
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	153,955	175,147
Net realized and unrealized (gains) losses on investments	28,307	(173,697)
Loss on disposition of equipment	7,860	
Provision for uncollectible pledges	5,000	10,000
Changes in operating assets and liabilities:		
Pledges receivable and sundry receivables	(995,232)	112,976
Inventory	27,299	97,609
Prepaid expenses and other assets	179,118	(116,431)
Accounts payable and accrued expenses	115,438	456,056
Grant obligations	2,488,650	1,103,745
Deferred lease liability	3,359	203,430
Net Cash Provided By Operating Activities	2,981,181	3,264,548
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(6,906,523)	(8,597,340)
Proceeds from sale of investments	4,332,455	4,332,072
Purchase of property and equipment	(189,646)	(20,702)
Net Cash Used In Investing Activities	(2,763,714)	(4,285,970)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease obligations	(5,272)	(4,871)
Net Cash Used In Financing Activities	(5,272)	(4,871)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	212,195	(1,026,293)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,450,462	2,476,755
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 1,662,657	$ 1,450,462

The accompanying notes are an integral part of these statements.

PANCREATIC CANCER ACTION NETWORK, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 WITH COMPARATIVE TOTALS FOR 2012

NOTE 1 – Organization and Business

The Pancreatic Cancer Action Network, Inc. (the Organization) is a nationwide network of people dedicated to working together to advance research, support patients and create hope for those afflicted by pancreatic cancer. The Organization raises money for direct private funding of research and advocates for more aggressive federal research funding of medical breakthroughs in prevention, diagnosis and treatment. The Organization fills the void of information and options by giving patients and caregivers the personalized and reliable information they need to make informed decisions. Additionally, the Organization helps individuals and communities across the country work together to raise awareness about pancreatic cancer and the funds to find a cure. The Organization's activities are conducted from offices in Manhattan Beach, California and Washington, D.C.

The Organization derives most of its revenue from contributions and special events. Each year the Organization holds "An Evening with the Stars" gala that is its largest fund-raising event. In 2013 and 2012, this event raised $883,296 and $714,201, respectively, net of related expenses. The Organization also hosts various outreach events utilizing a volunteer network. The volunteer network is comprised of community-based team members across the country who volunteer their time to raise awareness and educate their communities about pancreatic cancer. In 2013 and 2012, volunteer-based events raised $9,821,911 and $8,057,603, respectively, net of related expenses.

NOTE 2 – Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the Organization have been prepared in conformity with generally accepted accounting principles applicable to nonprofit organizations. Accordingly, the Organization's net assets are classified for financial reporting purposes as unrestricted, temporarily restricted or permanently restricted based on the existence or absence of donor-imposed restrictions.

Unrestricted net assets are not subject to donor-imposed restrictions and include those net assets that may be used by the Organization for any of its programs or administrative support including current and future grant awards and obligations for which funding from future restricted giving is uncertain.

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

Temporarily restricted net assets are subject to donor-imposed restrictions which will be met either by the Organization's actions or the passage of time. Items that increase this net asset category are contributions restricted as to time or purpose and include contributions that may be used for any purpose upon receipt at a future date. Temporarily restricted net assets are reclassified to unrestricted net assets when the restrictions have been met or have expired.

Permanently restricted net assets are subject to explicit donor-imposed restrictions that do not expire. Funds are held in perpetuity while the income is available for general use. At June 30, 2013 and 2012, the Organization had no permanently restricted net assets.

Prior-Period Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's audited financial statements for the year ended June 30, 2012 with an auditors' report date of September 7, 2012, from which the summarized information was derived.

Use of Estimates and Assumptions

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions affecting the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant items subject to such estimates and assumptions, among others, include the carrying amount of property and equipment and the allowance for pledges receivable. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents.

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents (Continued)

The Organization maintains its cash in financial institutions which, at times, may exceed federally insured limits. Historically, the Organization has not experienced any losses in such accounts. Management believes the Organization is not exposed to any significant credit risk on cash.

Investments

Investments are recorded at fair value based on quoted prices in an active market. In addition to gains and losses on investment sale transactions, investment income includes dividends and interest and is recognized as revenue in the period in which it is earned. Changes in fair value are recorded as unrealized gains (losses). Investment income amounts are reported as an increase in unrestricted net assets unless otherwise restricted by the donor. Contributions of securities from donors are recorded at fair value at the time the gift is made.

Investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with investments, it is at least reasonably possible that changes in the fair value of investments will occur in the near term and that such changes could materially affect the financial statements.

Pledges Receivable

The Organization recognizes donors' unconditional promises to give cash or other assets as revenue in the period promises are made. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Those promises to give that are expected to be collected over a period in excess of two years are recorded at the discounted present value of their estimated future cash flows. Amortization of the discount to present value is included in contribution revenue. Conditional promises to give are not recognized as revenue until the conditions are met.

Inventory

Inventory consists of various branded promotional items that are held for sale. Inventory is stated at the lower of cost or market determined by using the weighted average cost method.

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment are stated at cost, except for donated assets, which, except for certain facility improvements, are recorded at fair value at the time of receipt. The Organization capitalizes expenditures for property and equipment greater than $5,000. Additionally, the Organization capitalizes certain direct costs associated with the development of its web-site and its clinical trials database system.

In conjunction with the completion of a facility build-out under the terms of a ten-year lease that commenced November 2010, the landlord absorbed $300,991 in facility improvement costs in excess of landlord's standard base building costs and costs assumed by the Organization and recorded to leasehold improvements in the accompanying Statement of Financial Position. The Organization did not recognize these additional absorbed costs as a contribution to property and equipment in its financial statements during 2013 and 2012.

Depreciation and amortization expense is calculated using the straight-line method over estimated useful lives of three to ten years for furniture and equipment, computer software and internally developed asset costs. Leasehold improvements and equipment under capital lease obligations are amortized on a straight-line basis over the estimated life of the asset or the remaining life of the lease, whichever is shorter.

Fair Value Measurements

The Organization follows the guidance required for fair value measurements of financial and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring or nonrecurring basis. This guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance also establishes a framework for measuring fair value and enhances disclosures about fair value measurements. (See Note 4.)

The guidance describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value. The Organization's assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Contributions

Contributions are recognized as revenue in the period received or pledged and are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions received with donor-imposed temporary restrictions are recorded as temporarily restricted revenue. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Bequests are recognized at the time the Organization receives notification of its right to them as a beneficiary, the proceeds are subject to reasonable estimation, and there are no known or probable impediments to receipt of the bequested gift. Sundry receivables include bequests receivable with estimated values of $0 and $40,000 at June 30, 2013 and 2012, respectively.

Donated materials, contributed services and other noncash donations are recorded as contributions at their estimated fair values on the date received. The Organization recorded $572,124 and $308,649 representing the estimated fair value of donated goods and services in 2013 and 2012, respectively. Many individuals, most of whom are active in one of the fifty-eight nationwide Community Outreach volunteer affiliates as of June 30, 2013, volunteer their time and perform a variety of tasks that assist the Organization with its programs and administration. These donated services are not reflected in the financial statements because they do not meet the criteria for inclusion. Also, the financial statements do not reflect approximately $42,000 and $35,000 in professional legal services provided to the Organization at no cost for the years ended June 30, 2013 and 2012, respectively.

Special Events

Special events consist of the "An Evening with the Stars" gala and various outreach and awareness events utilizing a nationwide volunteer network. The gala revenue and related expenses are recognized in the period in which the event occurs. Revenue from volunteer organized awareness events is generally recognized as received unless significant performance obligations remain at the end of the fiscal year. Certain costs paid in advance of an event are recorded as prepaid expenses.

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Research Grants

The Organization awards peer-reviewed research grants to investigators who are devoted to scientific research related to pancreatic cancer. Research grants include periodic reporting and compliance requirements that, if not met, allow the Organization to rescind its promise to pay future award installments. The Organization pays a fee for grant peer-review and administrative services provided by the American Association of Cancer Research. These fees are charged at a rate of 8.0% and 10.0% of the amount of the awards granted in 2013 and 2012, respectively, and are paid from unrestricted funds. Grants and fees are recognized as expense when the grant is awarded to a named recipient. Grants that have remaining obligations that are payable over a period greater than one year at the end of the fiscal year in which the grant is awarded are discounted to their present value using a rate that was 1% in 2013 and 2012. Unused grant awards are returned to the Organization and reduce the research grant expense. There were no returned grant awards in 2013 and 2012.

Advertising Costs

Advertising costs are expensed in the period the advertisement is run and charged directly to the program benefiting from the advertisement. Advertising expenses that affect more than one functional area are allocated to applicable areas based on ratios estimated by management.

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state laws.

The Organization recognizes the financial statement benefit of tax positions, such as filing status of tax-exempt, only after determining that the relevant tax authority would more likely than not sustain the position following an audit. The Organization is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for federal and California state purposes is generally three and four years, respectively.

PANCREATIC CANCER ACTION NETWORK, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 WITH COMPARATIVE TOTALS FOR 2012

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Functional Expenses

Operating expenses directly identified with a functional area are charged to that area. Expenses affecting more than one functional area are allocated to the respective areas on the basis of ratios estimated by management.

Subsequent Events

In preparing these financial statements, the Organization's management has evaluated subsequent events and transactions for potential recognition or disclosure through September 13, 2013, the date at which the financial statements were available to be issued.

NOTE 3 – Investments

Investments held at June 30, 2013 and 2012 consist of:

	2013		2012	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Fixed Income Securities:				
Corporate bonds	$ 1,365,209	$ 1,384,494	$ 1,448,637	$ 1,485,659
US Federal agencies	1,492,054	1,474,735	1,528,109	1,570,038
Mutual and Exchange Traded Funds:				
Bond funds	4,702,414	4,597,054	2,848,476	2,913,275
Equity funds and other assets	1,136,538	1,341,395	1,580,068	1,533,572
Common Stocks	2,288,647	2,262,808	988,101	1,012,181
	$ 10,984,862	$ 11,060,486	$ 8,393,391	$ 8,514,725

At June 30, 2013, fixed income securities bear maturity dates ranging from 2014 to 2027.

NOTE 3 – Investments (Continued)

Investment returns from these investments and other interest-bearing accounts are summarized as follows:

	For the Year Ended June 30, 2013	2012
Dividend and interest income, net	$ 250,465	$ 200,035
Net realized and unrealized gains (losses)	(28,307)	173,697
	$ 222,158	$ 373,732

Dividend and interest income is reported net of bank fees of $117,067 and $85,249 in 2013 and 2012, respectively.

NOTE 4 – Fair Value Hierarchy

The Organization uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine the fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in certain instances, there are no quoted market prices for the Organization's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. The Organization groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

NOTE 4 – Fair Value Hierarchy (Continued)

The Organization's valuation techniques for assets and liabilities recorded at fair value are as follows:

Investments – The fair value of investment securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the investment.

Pledges receivable – The fair value of pledges receivable is equal to the carrying value for pledges expected to be collected within one year. Pledges expected to be collected in future periods are discounted to present value based on management's assumptions.

Grant obligations – The fair value of grant obligations is equal to the carrying value for grants expected to be paid within one year. Grant obligations expected to be paid in future periods are discounted to present value based on management's assumptions.

The following tables present assets that are measured at fair value on a recurring basis at June 30, 2013 and 2012:

	Fair Value Measurements at June 30, 2013			Total	
	Level 1	Level 2	Level 3	2013	2012
Fixed Income Securities:					
Corporate bonds		$ 1,384,494		$ 1,384,494	$ 1,485,659
US Federal agencies	$ 1,474,735			1,474,735	1,570,038
Mutual and Exchange Traded Funds:					
Bond funds	4,597,054			4,597,054	2,913,275
Equity funds and other assets	1,341,395			1,341,395	1,533,572
Common Stocks	2,262,808			2,262,808	1,012,181
Total	$ 9,675,992	$ 1,384,494	None	$11,060,486	$ 8,514,725

Assets and liabilities recorded at fair value on a nonrecurring basis based on level 3 inputs include pledges receivable and grant obligations in the amount of $835,036 and $5,277,963, respectively, at June 30, 2013 and $534,734 and $2,191,926, respectively, at June 30, 2012.

NOTE 5 – Pledges Receivable

Pledges receivable consists of amounts due in installments from various individuals, foundations and corporations. Expected future collections as of June 30, 2013 are as follows:

Year Ending June 30,	
2014	$ 880,850
2015	152,000
2016	909,688
2017	100,000
2018	100,000
Thereafter	200,000
	2,342,538
Less discount at a rate of 3.0%-4.5%	(164,645)
Less allowance for uncollectible pledges	(14,386)
	$ 2,163,507

At June 30, 2013 and 2012, the total of pledges receivable that are recorded net of related discounts is $1,435,355 and $671,956, respectively. Outstanding pledge receivables that are donor restricted as to time or purpose total $2,086,355 as of June 30, 2013 and $1,180,490 as of June 30, 2012.

Uncollectible pledge expense of $5,000 and $10,000 was reported in miscellaneous expense in 2013 and 2012, respectively.

NOTE 6 – Property and Equipment

Property and equipment consists of the following:

	June 30, 2013	June 30, 2012
Furniture and equipment	$ 430,004	$ 413,445
Computer software	321,082	278,962
Database system and web-site	467,240	353,585
Leasehold improvements	173,723	166,238
	1,392,049	1,212,230
Accumulated depreciation and amortization	(669,679)	(517,691)
	$ 722,370	$ 694,539

Furniture and equipment includes assets acquired in exchange for capital lease obligations. The cost of capital lease equipment was $31,093 at June 30, 2013 and 2012. Related accumulated amortization of the capital lease equipment at June 30, 2013 and 2012 was $10,360 and $7,252, respectively.

The Organization has an internally developed clinical trials database system for internal use. Development costs for the database system are being amortized over a five-year period. Web-site development costs are amortized over a three-year period. Amortization costs were $61,070 and $81,742 for 2013 and 2012, respectively.

During the year ended June 30, 2013, the Organization incurred database system development and in-progress payments of $113,656. These expenditures updated the functionality and expanded utilities and access to the Organization’s internal clinical trials database system. The Organization is obligated to pay an additional $97,810 upon completion in September 2013.

Total depreciation and amortization expense was $153,955 and $175,147 for 2013 and 2012, respectively.

In 2013, miscellaneous expense includes charges of $7,860 related to the write-down and abandonment of certain assets.

NOTE 7 – Grant Obligations

Grant obligations consist of annual award installments and administrative fees due on multi-year research grants that are payable each year in advance, over one to five years.

Future payments on grant obligations as of June 30, 2013 are as follows:

Year Ending June 30,	
2014	$ 2,593,750
2015	1,916,250
2016	930,000
2017	300,000
2018	150,000
	5,890,000
Less discounts at rates of 1%	(130,070)
	$ 5,759,930

In 2013, the Organization recorded research grants and fees, before discounts of $82,037, of $5,408,600. This total consisted of $5,045,000 for awards and $363,600 for administrative fees. The Organization paid $1,131,100 of this obligation during 2013 and the remaining $4,195,463, net of discount, was included in grant obligations at June 30, 2013. In 2012, the Organization recorded research grants and fees, before discounts of $28,074, of $3,729,500. This total consisted of $3,445,000 for awards and $284,500 for administrative fees. The Organization paid $1,320,000 and $1,509,500 of this obligation during 2013 and 2012, respectively. The remaining $882,295, net of discount, was included in grant obligations at June 30, 2013.

NOTE 8 – Commitments

Facilities Leases

In November 2010, the Organization relocated its corporate offices to Manhattan Beach, California. Under the terms of the new facility lease, monthly base rental payments escalate from $35,250 to $74,098 over a ten-year lease period, following rent-free occupancy for the first six months. The total amount of base rentals over the term of the lease is charged to expense on a straight-line basis, with the amount of the rental expense in excess of the lease payments recorded as a deferred lease liability. The lease provides for payment of a minimum number of parking spaces at rates that increase 3% annually. The agreement also calls for payment of allocated operating expenses that commenced in January 2012 and offers two five-year renewal options at market rates. Under the terms of the lease, the Organization made payments for tenant improvements during the fiscal year-ended June 30, 2011 that totaled $111,447, net of $12,083 in credits for reduced real-estate broker fees charged to the landlord in benefit of the Organization. These costs totaling $123,530 were recorded to leasehold improvements.

The Organization occupies an office space in Washington, D.C. at a monthly rate of $5,584 under a lease agreement that called for an increase of 4% in May 2013 and expires in May 2014.

Future minimum lease payments for the corporate facility operating leases including minimum parking accommodations are:

Year Ending June 30,	
2014	$ 857,967
2015	817,913
2016	842,450
2017	867,724
2018	893,755
Thereafter	2,176,419
	$ 6,456,228

NOTE 8 – Commitments (Continued)

Equipment Leases

The Organization leases office equipment under non-cancelable leases that are collateralized by the office equipment acquired under the agreements. One of these leases is being recorded as an operating lease with lease payments of $1,143 per month through July 2014. At June 30, 2013, a capital lease obligation that is due in January 2016 is payable in monthly installments of $564 and bears an imputed interest rate of 8%.

The future minimum capital and operating equipment lease payments are as follows:

Year Ending June 30,	Capital Lease	Operating Lease
2014	$ 6,765	$ 13,722
2015	6,765	1,143
2016	3,942	
	17,472	14,865
Less amount representing interest	(1,733)	
	$ 15,739	$ 14,865

In 2013 and 2012, rental expense for operating leases was $920,307 and $902,662, respectively.

Contractual Obligations

The Organization has entered into contractual agreements with hotel venues to provide facilities and services for events scheduled to take place through June 2014. The agreements call for payment of cancellation fees that range from a minimum of $19,073 for an event scheduled in October 2013 to $171,983 for an event scheduled in June 2014. The minimum and maximum aggregate cancellation fees for all contracted venues is $186,183 and $382,438, respectively.

NOTE 9 – Net Assets

Unrestricted Net Assets – Board Designated Operating Reserve

The Organization defines Board Designated Operating Reserves as the portion of unrestricted net assets that has been designated for use in emergencies and to sustain financial operations in the event budgeted revenues are not realized or unforeseen expenses are incurred. The presence of an operating reserve provides the Organization with flexibility to respond adeptly to rapidly changing economic and other conditions that warrant an immediate shift in strategy. The Board has established a target of maintaining a minimum, fully funded operating reserve sufficient to fund four months of budgeted operating costs as modified for projected availability of financial resources restricted for the purpose of funding a growing research grant portfolio. At June 30, 2013, the Board Designated Operating Reserve balance was $6,370,000 and represented approximately five months of budgeted fiscal 2014 operating expense. At June 30, 2012, the balance of $5,840,000 represented approximately five months of budgeted fiscal 2013 operating expense.

Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	June 30,	
	2013	**2012**
Time restricted net assets:		
Unrestricted use	$ 600,319	$ 671,956
Purposes restricted net assets:		
Research grants	18,220	4,824
Grantee development	-	75,000
Patient Services Clinical Trial database	396,810	-
	$ 1,015,349	$ 751,780

NOTE 10 – Retirement Plan

The Organization has a 401(k) profit-sharing plan (the Plan) covering all eligible employees. The Plan provides for participants to make pretax contributions, with the Organization matching 100% of contributions up to 3% of the participant's compensation and matching 50% of contributions for the next 2% of compensation. In addition, the Organization may make discretionary additional contributions for its employees. During the years ended June 30, 2013 and 2012, the Organization made nondiscretionary contributions of $181,469 and $142,345, respectively, towards its employees' 401(k) retirement accounts.

NOTE 11 – Joint Costs

For the years ended June 30, 2013 and 2012, the Organization incurred joint costs for informational newsletters that included fund-raising appeals. These joint activities meet the purpose, audience, and content criteria required to support the allocation of these costs to the areas benefited, as follows:

	For the Year Ended June 30, 2013	2012
Program service costs	$ 8,187	$ 163,885
General and administrative	479	10,199
Fund-raising	1,306	24,061
	$ 9,972	$ 198,145

NOTE 12 – Supplemental Disclosure of Cash Flow Information

	For the Year Ended June 30, 2013	2012
Interest paid	$ 1,493	$ 1,893